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CC:
Subject: IMPORTANT: Washington Post Articles on Announcement of Gasland Movie on HBO and Why BP was unprepared for the big spill

SCIENCE SCAN -- NATURAL RESOURCES

Tuesday, June 15, 2010; HE03

All's not well

"Gasland" (HBO)

Thanks to the Gulf of Mexico oil spill, the risks of offshore drilling are clear. President Obama has touted natural gas as one alternative to oil and a key component of a "clean energy future." But gas can have dangerous environmental consequences, too, according to the muckraking documentary "Gasland," premiering on HBO June 21 at 9 p.m. Filmmaker Josh Fox stumbles onto the story when a company offers him $100,000 for the right to drill for gas on his land in Milanville, Pa. He turns down the offer after traveling to Dimock, Pa., where the process of "fracking" for gas had contaminated the water supply. He meets a woman whose cats and horses are losing their hair; her neighbor says her water "sometimes bubbles and hisses when it comes out."

Why BP was unprepared for the big spill

By James Ledbetter
Sunday, June 13, 2010; G04

The continued gushing of oil into the Gulf of Mexico raises widespread questions about how badly prepared BP was from an environmental perspective. But what about from a corporate perspective? Multinational giants like BP spend large amounts of money to map out scenarios and, presumably, prepare for them. Why didn't BP's risk models account for a crisis of this proportion, and doesn't that represent a colossal management failure?

We asked Ian Bremmer to explain. He heads the Eurasia Group, a firm that specializes in measuring risk (BP is not a Eurasia Group client), and wrote "The End of the Free Market: Who Wins the War Between States and Corporations?"

TBM: How does a huge, experienced multinational company find itself in a situation like this?

Bremmer: First of all, we've found in a number of cases, whether it's BP or financial firms, you get the best and the brightest, the smartest and the most highly compensated people in these positions in the private sector. The folks left to do the regulation and the oversight are poorly paid, not as up-to-speed, and the most talented can't be kept there. And they often get run circles around, despite the fact that they are the guys who are supposed to understand externalities and look after the public weal. I think we found, in terms of the [collateralized-debt obligation] crisis, as well as with BP's utter lack of preparedness . . . two manifestations of exactly the same thing.

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The second thing I would say is that . . . unregulated private sector actors have a problem. They are thinking about maximizing profits short-term, at the risk of maximizing profits long-term. Especially in the context of an economic downturn, there's a massive amount of pressure to make your numbers this quarter. Not just for BP, but for every subcontractor that was in that chain. In that environment, you are as weak as your weakest, most financially pressured, most short-term-in-orientation link.

TBM: This is precisely the parallel that I see to the financial market meltdown. We've had meltdowns before, and we've had oil spills before, yet they don't seem to take that into account. How is it that a company like BP doesn't build this worst-case scenario into its risk assessment? Or is it the case that it is in their risk assessment and this is how it plays out?

Bremmer: No, I think it isn't. If you look at the responses from [BP chief executive Tony] Hayward and the BP brass in the days and weeks afterward, they clearly thought that this was much more benign. They're talking about how big the ocean is, how limited the damage is going to be. That implies that their worst-case scenarios absolutely did not take into consideration how dangerous a long-term spill from the bottom of the ocean could be.

TBM: The New York Times reported that BP had presented to regulators a worst-case scenario of spilling 250,000 barrels a day. They weren't required by regulators to have a plan for that, and they clearly didn't.

Bremmer: The fact that they gave that plan to regulators does not mean they believe that's what the worst-case scenario was. Unless you think Hayward is a ruthless and inexplicably stupid liar . . .

TBM: Let's assume that's not the case.

Bremmer: Then, clearly, their internal models did not build this in as a realistic possibility.

TBM: I am still struggling to understand how a company gets by with a model that is so flawed. In the case of Wall Street, they build models with a positive feedback loop that makes the worst scenarios seem less and less likely. The black swans get pushed out to the sides. Oil drilling doesn't seem to work like that. You have to build these accidents in, because they happen pretty often.

Bremmer: But the same thing is happening here. As the technology increases, and you're constantly pushing forward into a realm that you haven't experienced before, you tend to spend the most time on what gives you the most bang for your buck. The people who are involved in risk management for these firms are cost centers. And there are people trying to get investment banking deals done. They're trying to find ways to mollify these folks and sometimes get around them. And that's just the way that the corporate structures work -- a reason why you need regulatory oversight.

It sounds to me like climate change. How could we get our models wrong from 25 years ago, from 10 years ago, even from five years ago -- how could we miss so many of these feedback loops? It's because we've never done this before. This is the first time we've ever heated our climate like this.

TBM: I accept the analogy as far as it goes, but climate change is a tragedy of the commons, right? Everybody will suffer because it's no one's responsibility; no one person or firm is accountable. With corporations, you have, presumably, structures of accountability. I can't understand why BP shareholders aren't outraged by this.

Bremmer: I think they're outraged, but they also don't want to be seen as piling on at this point, because it's their investment. They're probably more mortified than outraged. Right now, they're sticking with Hayward because they have to.

TBM: Let's put this in the context of your current book. You talk about the tug of war between state power and corporate power. Does a disaster like this change that balance at all?

Bremmer: To be very specific about the oil: When you're talking about non-OPEC production, you're talking about Canadian oil sands, Brazilian offshore and American offshore. Those are the big places, and all of those have massive regulatory importance. The U.S. government is going to respond to this, and it's going to be limiting to a great degree the kind of drilling that can occur, how long it takes, how many steps you have to go through. Watch very carefully what the Brazilians do, too, with offshore drilling. On the one hand, you have Petrobras saying, "We want to have more control of these fields." It's quite possible that because they don't have the same level of technical expertise, ironically, they will be bringing in more private-sector expertise.

But there's also going to be a state reaction. Whenever you have under-regulation and you have a big crisis, the pendulum always swings in the other direction. That is happening in the financial field, and it's going to happen in this field as well. So we're going to see lots and lots of regulation. Where aren't you going to see lots and lots of regulation? Of course, in the authoritarian states, in the places where states can go ahead and do what they want.

TBM: The usual rap on state versus private oil companies is that the private firms have many more incentives to act ethically and environmentally responsibly than do the state-run companies. Should the BP spill cause us to rethink that?

Bremmer: It's not clear to me that we should think that an unregulated, private-sector actor acts any more ethically than a state actor. In fact, in many ways they might act less ethically, depending on the nature of the state. I don't see the last 20 years as a failure of the free market, and I don't see BP as a failure of the free market. I see it is an utter failure [stemming from] a lack of regulation, a failure of the state not playing the role it's supposed to play.

I'm not a libertarian. I don't believe that the state should stay out of our lives. I fear that a lot of the responses to my book have been: "Obama is a socialist. He's bringing back the state. We're going to be like France." Is France so horrible? Europe and the United States are functionally the same thing, from an economic model. I worry that what people don't seem to understand is that over the last 20 to 30 years, the United States just ignored, abdicated a lot of its responsibilities. And so did local governments, so did state governments. One of the big villains in this story is Alan Greenspan. And he sort of admitted it, but way too late and way too quietly. Where was he when Hank Paulson needed the help? He was nowhere. He was someone I would have wanted to see all over the airwaves, because he is a brilliant guy, and he could have said mea culpa. He's been absent, and I think that is his shame, frankly.

TBM: You open your book talking about how state capitalist countries used the failure of Western markets in 2008 as a rationale for arguing the superiority of their own systems. Do you see the BP spill being spun the same way by state-capitalist oil firms?

Bremmer: Not as much, simply because the last two years have given them more than enough already. I think for the United States, the BP spill is a really big deal. For Europe, except for BP in London, the much bigger deal is the realistic potential failure of the most important, and heretofore successful, experiment of the free market system ever. If you're China, if you're Russia, you're looking at that.

-- The Big Money

James Ledbetter is editor of The Big Money and of "The Great Depression: A Diary," published *recently by Public Affairs.*